

Opportunities to improve payment accuracy in the hospital acute inpatient PPS by making changes in outlier payment policies

ISSUE: In the last two years, CMS has adopted important case-mix refinements in the hospital acute inpatient PPS, including cost-based weights and Medicare severity DRGs (MS-DRGs). These refinements demonstrably improve payment accuracy—the extent to which PPS payments track hospitals' costs across and within MS-DRGs—and reduce hospitals' risks of incurring large losses on high-cost outlier cases. Could Medicare continue to provide the current level of outlier insurance protection to hospitals at lower cost? That is, could the Congress and CMS provide about the same level of protection with a smaller pool of funds set aside for making outlier payments (extra payments for cases in which costs exceed the outlier threshold for the MS-DRG)? Using a smaller outlier pool would enable hospitals to receive higher DRG payment rates for all cases, but smaller outlier payments. Would reducing the pool and redistributing payments this way further improve payment accuracy? How would the redistribution of payments affect hospitals? Reducing the size of the outlier pool would require legislation because this policy parameter is set in law.

KEY POINTS: In this session, we will present findings from our analyses of:

- The size of the outlier pool that would be necessary to preserve the current (fiscal year 2007) level of outlier insurance protection under MS-DRGs and cost-based relative weights,
- The level of the marginal cost factor (currently set at 80 percent), which is used in determining the amount of outlier payments a hospital receives when its costs for a case exceed the outlier threshold for the MS-DRG,
- The effects on payment accuracy of alternative changes in the marginal cost factor and the outlier pool, and
- The impact of these policy options on the distribution of payments among hospitals.

ACTION: Commissioners should provide comments on these analyses.

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